

FDIC State Profile

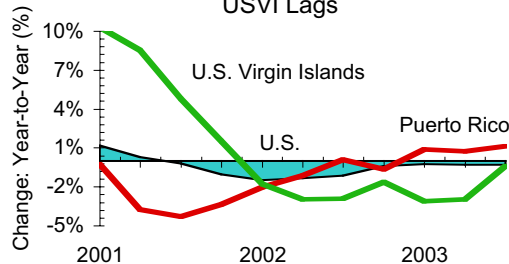
WINTER 2003

Puerto Rico and the U.S. Virgin Islands

Employment trends in Puerto Rico turned positive through third quarter 2003. The U.S. Virgin Islands' (USVI) economy has lagged the U.S., although job losses eased in 2003.

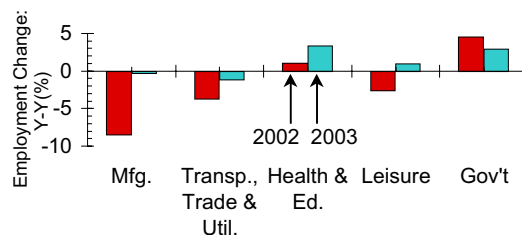
- In the first three quarters of 2003, employment growth in Puerto Rico increased to almost 1.00 percent, Puerto Rico's first gain in two years. Employment trends in the USVI lagged the U.S.; however, in third quarter 2003, employment losses eased (see Chart 1).
- Job losses in Puerto Rico's manufacturing and trade and transportation sectors have been offset by gains in the government and health and education sectors (see Chart 2). The leisure sector, which includes tourism, added jobs in the first three quarters of 2003 compared with job contraction a year ago.
- Manufacturing is Puerto Rico's dominant sector, accounting for 40 percent of gross product, more than double the share for the U.S. Although easing, manufacturing job losses have been significant during the past several years. U.S. manufacturing weakness, the elimination of certain tax incentives, and competition from low-wage Latin American countries contributed to job losses.
- Puerto Rico's major metropolitan areas recorded positive job growth through September 2003 (see Chart 3). Employment in **San Juan**, which represents about two-thirds of Puerto Rico's total job base, increased about 1.00 percent annually because of gains in government and health and education sectors and slower manufacturing job losses compared with previous years.
- **Caguas** has benefited from job gains in business services and pharmaceuticals. In addition, its proximity to San Juan allows tourists easy travel to the area. Despite manufacturing job losses, **Mayaguez's** economy has performed well because of the addition of government, financial and business service jobs.
- Over the last two years, **Ponce's** economy has been sluggish, resulting from manufacturing and retailing job losses. In 2003, however, job gains in financial, business, and leisure services and the easing of manufacturing losses has pushed overall job growth into positive territory for the first time in two years.
- The U.S. Virgin Islands' economy continued to lag the mainland, although job losses eased in third quarter 2003. USVI is very dependent on tourism, which represents 60 percent of the gross product and 30 percent of employment. Tourism declined in the last couple of years, but reports suggest recent improvement. There are tentative plans to construct new gaming facilities to boost tourism.

Chart 1: Employment Growth Is Recovering Faster in Puerto Rico than the Nation, while USVI Lags



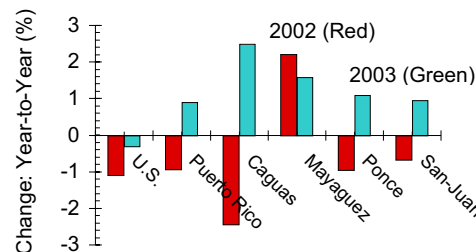
Source: Bureau of Labor Statistics

Chart 2: Employment Losses in Manufacturing, Transportation, Trade & Utilities Have Been Offset by Gains in Health & Education, Leisure, and Government



Source: Bureau of Labor Statistics. 2003 represents the first nine months of 2003 compared with the first nine months of 2002.

Chart 3: All of Puerto Rico's Metropolitan Areas Have Enjoyed Positive Job Growth in 2003



Source: Bureau of Labor Statistics. 2003 represents the first nine months of 2003 compared with the first nine months of 2002.

Credit quality among insured institutions headquartered in Puerto Rico/U.S. Virgin Islands (PRVI) has stabilized across most loan categories after weakening following the U.S. recession.¹

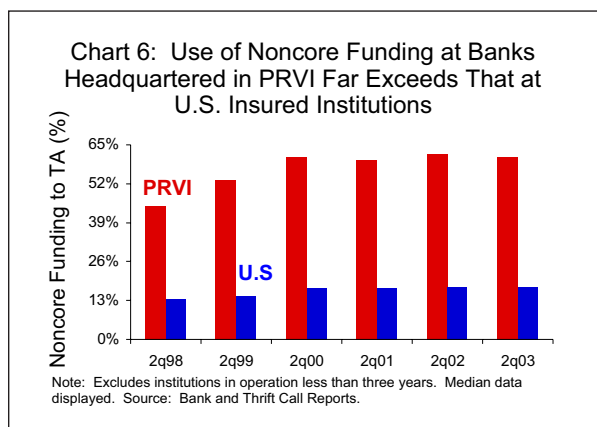
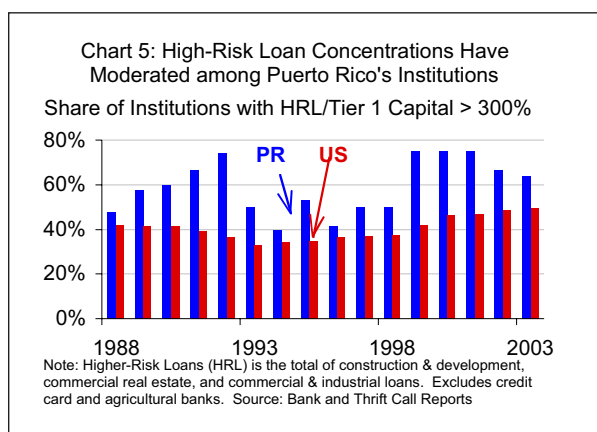
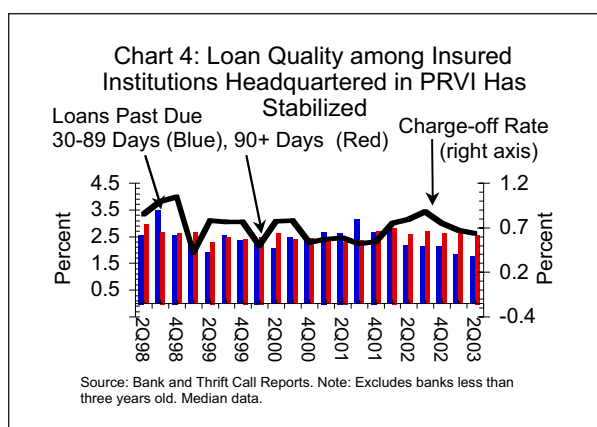
- Credit quality for insured institutions headquartered in PRVI has leveled through the first half 2003 (see Chart 4). The ratio of loans 30-89 days past-due and over 90 days past-due slightly declined in the second quarter 2003. Delinquency rates on consumer and residential real estate loans improved during the first half 2003 although commercial and industrial delinquency rates slightly increased.
- Historically, past-due and charge-off ratios among banks headquartered in PRVI have exceeded mainland levels.

Exposure to traditionally higher-risk loans remains elevated among insured institutions headquartered in PRVI.

- Consistent with national trends, the percentage of insured institutions with concentrations of traditionally higher-risk loans of at least 300 percent of capital increased during the 1990s economic expansion. The percentage has moderated in recent years, reflective of the growing focus by some banks on consumer businesses. While the percentage has moderated in recent years, at 64 percent it remains above the national level of 50 percent (see Chart 5).

After declining during 2002, the average net interest margin (NIM) among insured institutions headquartered in PRVI was stable during the first half 2003.

- The NIM of institutions headquartered in PRVI declined during much of 2002 as market interest rates reached historic lows. However, the NIM stabilized during the first half 2003. Since banks headquartered in PRVI are heavily reliant on market-rate sensitive, noncore funding, the decline in short-term funding costs over the past several years has offset decreases in asset yields.
- Raising low-cost deposits locally is challenging in Puerto Rico due to the highly competitive banking market, relatively large unbanked population (estimates indicate that as much as 50 percent of Puerto Rican citizens are unbanked), and tax-advantaged



alternatives to bank deposits. As a result, reliance on noncore funding among insured institutions headquartered in PRVI far exceeds that of U.S. institutions (see Chart 6).

¹ Analysis includes insured institutions headquartered in Puerto Rico and the U.S. Virgin Islands that have been in operation for at least three years as of June 30, 2003, unless otherwise noted.

State Profile

Puerto Rico and U.S. Virgin Islands at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	13	14	14	15	15
Total Assets (in thousands)	72,159,338	64,185,518	53,239,840	48,411,273	42,389,929
New Institutions (# < 3 years)	0	0	1	1	1
New Institutions (# < 9 years)	3	3	3	3	3
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	6.64	5.99	6.81	6.74	6.85
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	5.42%	5.12%	5.11%	5.05%	5.72%
Past-Due and Nonaccrual > = 5%	7	7	7	8	8
ALLL/Total Loans (median %)	1.53%	1.27%	1.26%	1.24%	1.32%
ALLL/Noncurrent Loans (median multiple)	0.46	0.39	0.44	0.40	0.47
Net Loan Losses/Loans (aggregate)	0.66%	1.00%	0.97%	0.92%	0.86%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	3	1	1	1	
Percent Unprofitable	0.00%	21.43%	7.14%	6.67%	6.67%
Return on Assets (median %)	1.15	1.01	0.92	0.83	1.05
25th Percentile	0.92	0.36	0.68	0.68	0.66
Net Interest Margin (median %)	3.09%	3.52%	3.76%	4.18%	4.31%
Yield on Earning Assets (median)	5.70%	6.56%	8.03%	8.55%	8.07%
Cost of Funding Earning Assets (median)	2.56%	3.39%	4.82%	4.77%	3.99%
Provisions to Avg. Assets (median)	0.29%	0.32%	0.35%	0.34%	0.32%
Noninterest Income to Avg. Assets (median)	0.55%	0.47%	0.56%	0.63%	0.72%
Overhead to Avg. Assets (median)	2.14%	2.44%	2.29%	2.81%	2.87%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	92.14%	89.38%	91.59%	94.87%	85.03%
Loans to Assets (median %)	52.40%	54.78%	59.76%	60.15%	57.62%
Brokered Deposits (# of institutions)	10	11	11	11	10
Bro. Deps./Assets (median for above inst.)	12.65%	14.76%	5.42%	7.38%	8.69%
Noncore Funding to Assets (median)	61.04%	61.76%	59.60%	60.30%	53.09%
Core Funding to Assets (median)	26.66%	27.08%	31.74%	30.88%	39.48%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	12	13	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	1	1
Mutually Insured	0	0	0	0	0
MSA Distribution					
	# of Inst.		Assets	% Inst.	% Assets
San Juan-Bayamon PR PMSA	10		62,590,480	76.92%	86.74%
No MSA	2		129,255	15.38%	0.18%
Mayaguez PR	1		9,439,603	7.69%	13.08%